PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

AUGUST 04 – 10, 2001

Summary

The peso gained week-on-week to close at its strongest level in almost two months. Observers attributed the strong rebound to cumulative effects of Central Bank measures. However, the stock market ended down despite late-week gains and the Philippine Treasury rejected as too high all T-bill bids during its weekly auction. Late in the week, the Central Bank announced another hike in reserve requirements, following through a July 27 increase to stem potential inflationary pressures. The Central Bank penalized nine banks for alleged violations of foreign exchange violations by imposing fines and making public the banks' identities. Key government officials, however, rejected the idea of imposing currency controls a la Mahathir. We also report on the latest year-on-year inflation figure for July (which accelerated somewhat from the June rate due to higher food prices). Meanwhile, recently released poverty statistics showed that the incidence of poverty worsened from 36.8% of the Philippine population in 1997 to 40% in 2000. End Summary.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

The peso appreciated during the week to close at P51.85/US$ on August 10, up 3% from August 3 and at its strongest closing level in nearly two months. Foreign exchange traders attributed the peso's improvement to a voluntary move by the Bankers Association of the Philippines' (BAP) to reduce commercial banks' overbought foreign exchange limits, as well as expectations that the Bangko Sentral ng Pilipinas (BSP, the central bank) was poised to raise reserve requirements further. They added that fears over a late-week pronouncement by President Gloria Macapagal-Arroyo on the possibility of currency controls "a la Mahathir", as well as a "name and shame" campaign undertaken by the BSP against banks for alleged foreign exchange violations, may also have encouraged profit-taking on foreign exchange holdings. Foreign exchange traders expect the peso to firm up further in the short-term from the follow-through effects of monetary tightening measures and tighter BSP monitoring of foreign exchange transactions.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
JUL 02	52.612	52.700	93.0
03	52.905	52.940	113.5
04	53.025	52.930	145.5
05	52.965	52.980	111.1
06	52.901	52.890	73.5
JUL 09	52.863	52.835	71.6
10	52.910	52.950	68.0
11	53.023	53.065	76.7
12	53.246	53.080	119.0
13	53.186	53.170	46.0

JUL 16	53.503	53.710	50.4
17	53.896	53.950	49.5
18	53.928	53.700	168.5
19	53.316	53.200	122.3
20	53.210	53.150	154.8
JUL 23	53.387	53.400	110.6
24	53.552	53.550	36.2
25	53.587	53.600	96.7
26	53.538	53.420	101.6
27	53.389	53.450	76.0
JUL 30	53.562	53.370	106.7
31	53.526	53.540	67.7
AUG 01	53.744	53.770	94.4
02	53.667	53.645	67.0
03	53.562	53.450	92.5
AUG 06	53.282	53.220	80.5
07	53.293	53.320	82.1
08	53.303	53.150	104.5
09	53.085	53.000	90.7
10	52.322	51.850	151.7

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and securities dealers bid up rates at the government’s weekly (Monday) Treasury bill auction on August 6. The P4 billion worth of T-bills scheduled for sale was under-subscribed, and the government rejected the P2.7 billion worth of tenders made as “too high”. National Treasurer Sergio Edeza said that banks were still adjusting to the BSP-imposed 2% hike in liquidity reserve requirements which went into effect on July 27. On the other hand, the Treasury accepted higher rates for longer-term government paper. It fully awarded a P2 billion auction of “re-issued” three-year Treasury bonds at a higher yield-to-maturity of 14.675% on August 7 (up 58 basis points from a previous July 17 re-issuance of the three-year securities). It also awarded P1.9 billion of a P2 billion offering of new five-year bonds at a coupon rate of 15.25%, up 125 basis points from when the five-year bonds were last auctioned on May 22.

Securities dealers expect an upward bias on bid rates in the short-term as financial institutions adjust to a late-week decision by the BSP to hike reserve requirements anew. Overall, Edeza believes that banks remain liquid given the dearth of alternative credit or investment options, and reiterated that the government stood ready to reject “unreasonable” bids.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
JUN 11	8.729	9.700	10.823
JUN 18	8.653	9.780	10.965
JUN 25	8.728	no sales	11.092
JUL 02	8.770	9.942	11.221
JUL 09	8.849	10.172	11.419
JUL 16	8.958	10.489	11.768
JUL 23	8.935	10.861	11.988
JUL 30	9.215	no sales	no sales
AUG 06	no sales	no sales	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
JUN 21	12.7828	10.00 – 14.000
JUN 28	12.6328	10.00 – 13.728
JUL 05	12.5638	10.00 – 13.770
JUL 12	12.5837	10.00 – 13.849
JUL 19	12.6249	10.00 – 13.958
AUG 02	12.8134	10.50 – 14.215
AUG 09	12.8318	10.50 – 14.215

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The week generally saw stock prices falter further on news of weak second quarter corporate earnings and upward pressure on domestic interest rates. By August 9 (Thursday), the Philippine Stock Price Index (Phisix) had closed below the 1,300 mark for the first time since November 6, 2000. The Phisix inched up by 1.2% from its August 9 closing level to close the week at 1294.23 on August 10, which stockbrokers attributed to a marked late-week appreciation of the Philippine peso. The Phisix nevertheless closed 2.6% down week-on-week.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
JUL 02	1395.79	543
03	1392.07	464
04	1385.99	525
05	1402.23	464
06	1396.92	278
JUL 09	1405.39	346
10	1397.66	447
11	1390.10	284
12	1399.42	289
13	1396.30	208
JUL 16	1397.61	377
17	1384.01	798
18	1382.28	325
19	1381.87	625
20	1376.36	330
JUL 23	1374.83	516
24	1369.02	441
25	1366.01	472
26	1362.58	368
27	1363.34	584

JUL 30	1350.95	323
31	1362.89	406
AUG 01	1333.71	373
02	1341.56	472
03	1328.17	338
AUG 06	1333.05	382
07	1332.03	688
08	1308.41	1,028
09	1278.40	1,059
10	1294.23	481

Source: Philippine Stock Exchange

BSP MOPS UP LIQUIDITY FURTHER . . .

On August 9, BSP Governor Rafael Buenaventura announced that the Philippine Monetary Board (BSP's highest policymaking body) had approved another two percentage point hike in "liquidity" reserve requirements on commercial banks and non-banks with quasi-banking functions effective August 10. The move confirmed expectations earlier in the week that the BSP was poised to rein in money supply further, after increasing liquidity reserve requirements on July 27 by 2 percentage points. Required reserves on deposit liabilities now stand at 11%, and on common trust funds and other fiduciary accounts at 12%. Explaining the Monetary Board decision, Gov. Buenaventura noted that preliminary second-quarter indicators of economic growth suggested excess liquidity potentially could build up inflationary pressures in coming months, either directly or through currency volatility.

. . . AND PENALIZES BANKS FOR VIOLATING FOREX RULES

On August 10, the BSP also released the identity of nine commercial banks fined for alleged violations of foreign exchange regulations. The list included three foreign branch banks –- Citibank, Hong Kong Shanghai Banking Corp. (HSBC), and Standard Chartered Bank. Also in the list were two of the Philippines' largest banking institutions, Bank of the Philippine Islands (BPI) and Equitable-PCI Bank. According to BSP officials, the decision to impose penalties followed a thorough review by BSP examiners of banks' foreign exchange transactions during the June-July period.

The fines ranged from P30,000 (about $575, imposed on five banks) and P3.2 million (about $61,500, for one Filipino commercial bank). Alleged violations included splitting over-the-counter foreign exchange sales below the limit allowed for non-documented transactions, insufficient documentation, and foreign exchange sales for unregistered import purchases. Although the financial penalties involved are almost symbolic (reflecting the modest administrative fines currently allowed under present laws), BSP officials told the Embassy that the regulatory authority's "name and shame" strategy was meant to send a strong signal that the BSP meant business. Gov. Buenaventura commented in media interviews that while the banks may not have necessarily speculated on the local currency for their own accounts, they may have "aided and abetted" foreign exchange speculation by their clients.

KEY GOP OFFICIALS REJECT CURRENCY CONTROLS
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At a news conference after a recent state visit to Malaysia, President Gloria Macapagal-Arroyo was quoted as saying "I don't envision anything, but I don't want to rule out anything a la Mahathir. So let the speculators be warned". The pronouncement caused quite a stir, although President Macapagal-Arroyo's chief financial advisers -- Dept. of Finance Secretary Jose Isidro "Lito" Camacho and BSP Gov. Buenaventura -- have firmly declared that the Philippines remains committed to a market-determined exchange rate and the free flow of capital. The statement elicited strong objections from the private sector and is unlikely to find support even within the Macapagal-Arroyo cabinet. Most interpret the statement as an emphatic political message to rein in currency speculation rather than as a serious policy option.

JULY YEAR-ON-YEAR INFLATION AT 6.8%

The government's National Statistics Office (NSO) reported that July 2001's consumer price index (CPI) increased by 0.6% month-on-month, decelerating from June's 1% rate. That deceleration partly reflected a slowdown in price increases for education-related expenses (i.e., tuition fees, books, and school supplies) after the opening of the school season in June -- which contributed to a slower month-on-month increase (0.4% vs. 2.7%) in the overall service index. Fuel, light, and water rates also increased at a slower rate (0.9%) than in June (1.6%), as did the prices of miscellaneous items (up 0.1% vs. 0.3%). Only the housing and repairs index rose at a faster month-on-month rate than in June (i.e., 0.6% vs. 0.4%). The food and clothing indices (up by 0.7% and 0.2%, respectively) sustained their June month-on-month rates.

July 2001's 0.6% month-on-month CPI increase nevertheless outpaced that posted in July 2000 (0.5%) -- mainly because typhoons pushed up food prices at a faster month-on-month rate than July 2000's comparable 0.4% pace. July's higher year-on-year inflation rate reflected a larger increase in the food index. Vis-à-vis June's year-on-year CPI increase, slower year-on-year inflation rates were posted by housing and repairs (7.4% from 7.5%); fuel, light, and water (10.2% from 10.7%); and services (12.1% from 12.2%). Clothing and miscellaneous items increased by the same year-on-year rates posted in June (3.6% and 4%, respectively.)

Year-on-year inflation averaged 6.7% during the first seven months of 2001, within the government's 6-7% targeted range for the full year. Government officials expect year-on-year inflation to slow towards the fourth quarter (partly because prices will be coming off a relatively higher 2000 base).

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month

Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Jul	3.6	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Jun	6.7	1.0
Jul	6.8	0.6
Average		
Jan-Jul	6.7	

Source: National Statistics Office

FAMILY INCOMES DETERIORATE; POVERTY WORSENS

According to recently released, preliminary results of the government’s latest Family Income and Expenditures Survey (conducted every three to four years), average family income increased by 17.3% in nominal terms between 1997 and 2000. However, inflation (22%) outpaced the nominal expansion in average family incomes, resulting in a 3.9% decline in real terms. Inflation-adjusted family expenditures also declined (by 1.8%), as did average savings of Philippine households.

More worrisome was the rise in poverty incidence between the 1997 and 2000 surveys. The percentage of “poor” people unable to meet basic food and non-food needs increased from 36.8% of the Philippine population in 1997 to 40% of the Philippine population in 2000. This meant a 16.9% increase over 1997, or an additional 2.4 million people falling below government-estimated poverty thresholds. The higher poverty incidence also represented a “backsliding” from the declining rates of poverty incidence seen during the Aquino and Ramos administrations. The government attributed the higher incidence of poverty to the financial and economic difficulties wrought by the Asian crisis, as well as to weather-related supply disturbances (such as El Nino). A number of private sector analysts commented that the higher incidence of poverty also reflected especially weak public sector governance during the previous administration.

POVERTY INCIDENCE

	Magnitude of Poor Population (In Millions)	Incidence of Poor Population a/ (In %)
1985	26.23	49.3
1988	25.01	45.5
1991	28.12	45.3
1994	27.27	40.6
1997	26.77	36.8
2000 p/	31.28	40.0

p/ preliminary
a/ proportion of poor population to total population

Source: National Statistical Coordination Board